

MUNICIPALITY OF CASTLEWOOD

AUDIT REPORT

For the Two Years Ended December 31, 2016

MUNICIPALITY OF CASTLEWOOD
MUNICIPAL OFFICIALS
December 31, 2016

Municipal Council Members:

Paul Friske, Mayor
Brain Ries
LeeAnne Dufek
Shawn Mullaney
Jeff Shepherd
Greg Dobbs
Jeff Dahl

Municipal Finance Officer:

Sheila Gerhold

Municipal Attorney:

Todd Boyd
Boyd Law Firm, Prof. L.L.C.

MUNICIPALITY OF CASTLEWOOD
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427 SOUTH CHAPELLE
C/O 500 EAST CAPITOL
PIERRE SD 57501-5070
(605) 773-3595

MARTIN L. GUINDON, CPA
AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Governing Board
Municipality of Castlewood
Castlewood, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the modified cash basis of accounting financial statements of the governmental activities, the business-type activities, and each major fund of the Municipality of Castlewood, South Dakota (Municipality), as of December 31, 2016, and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated October 20, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Municipality's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Municipality's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Current Audit Findings that we consider to be significant deficiencies. We consider the deficiency described in the accompanying Schedule of Current Audit Findings as item No. 2016-001 to be significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Municipality's Response to Findings

The Municipality did not wish to respond to the finding identified in our audit as described in the accompanying Schedule of Current Audit Findings.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Municipality's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "Martin L. Guindon". The signature is fluid and cursive, with a large initial "M" and "G".

Martin L. Guindon, CPA
Auditor General

October 20, 2017

MUNICIPALITY OF CASTLEWOOD
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS

SCHEDULE OF PRIOR AUDIT FINDINGS

Prior Audit Finding:

Finding No. 2014-001:

A lack of proper segregation of duties existed for the revenue function resulting in decreased reliability of reported financial data and increased potential for the loss of public assets. This finding has not been resolved and is restated as current finding No. 2016-001.

SCHEDULE OF CURRENT AUDIT FINDINGS

Current Audit Finding:

Internal Control-Related Findings – Significant Deficiency:

Segregation of Duties

Finding No. 2016-001:

A lack of proper segregation of duties existed for the revenue function resulting in decreased reliability of reported financial data and increased potential for the loss of public assets. This is the fourth consecutive audit report in which this finding has appeared.

Analysis:

The finance officer processed all revenue transactions from beginning to end. The finance officer received money, issued receipts, recorded receipts in the accounting records, prepared bank deposits, reconciled bank statements, and prepared financial statements. As a result, an inadequate segregation of duties existed for the revenue function of the Municipality.

RECOMMENDATION:

We recommend that municipal officials be cognizant of this lack of segregation of duties for revenues and attempt to provide compensating internal controls whenever and wherever possible and practical.

Management's Response:

Management chose not to respond to this finding.



427 SOUTH CHAPELLE
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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT

Governing Board
Municipality of Castlewood
Castlewood, South Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis of accounting financial statements of the governmental activities, the business-type activities, and each major fund of the Municipality of Castlewood, South Dakota (Municipality), as of December 31, 2016, and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The Municipality's management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1.c.; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position on a modified cash basis of accounting of the governmental activities, the business-type activities, and each major fund of the Municipality of Castlewood as of December 31, 2016, and the respective changes in financial position thereof for each of the years in the biennial period then ended in accordance with the modified cash basis of accounting described in Note 1.c. to the financial statements.

Basis of Accounting

We draw attention to Note 1.c. of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the Municipality's basic financial statements. The Budgetary Comparison Schedules, the Schedule of the Municipality's Proportionate Share of the Net Pension Liability (Asset), and the Schedule of Changes in Long-Term Debt listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2017, on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Municipality's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Municipality's internal control over financial reporting and compliance.



Martin L. Guindon, CPA
Auditor General

October 20, 2017

MUNICIPALITY OF CASTLEWOOD
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
December 31, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and Cash Equivalents	\$ 623,553.21	\$ 491,234.81	\$ 1,114,788.02
Investments	254,613.29	200,540.97	455,154.26
TOTAL ASSETS	<u>\$ 878,166.50</u>	<u>\$ 691,775.78</u>	<u>\$ 1,569,942.28</u>
NET POSITION:			
Restricted For: (See Note 4)			
Debt Service Purposes	\$	\$ 40,807.96	\$ 40,807.96
Unrestricted	878,166.50	650,967.82	1,529,134.32
TOTAL NET POSITION	<u>\$ 878,166.50</u>	<u>\$ 691,775.78</u>	<u>\$ 1,569,942.28</u>

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF CASTLEWOOD
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For the Year Ended December 31, 2016

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		Total
				Governmental Activities	Business-Type Activities	
Primary Government:						
Governmental Activities:						
General Government	\$ 101,034.64	\$ 8,085.00	\$ 42,275.97	\$ (50,673.67)	\$	\$ (50,673.67)
Public Safety	37,700.04	221.00		(37,479.04)		(37,479.04)
Public Works	155,706.00		45,029.49	(110,676.51)		(110,676.51)
Culture and Recreation	46,879.70	13,660.26	1,165.00	(32,054.44)		(32,054.44)
Conservation and Development	55,700.00	35,993.54		(19,706.46)		(19,706.46)
Liquor Operating Agreement		6,520.76		6,520.76		6,520.76
Total Governmental Activities	397,020.38	64,480.56	88,470.46	(244,069.36)	0.00	(244,069.36)
Business-Type Activities:						
Water	101,299.10	118,314.38	25,781.15		42,796.43	42,796.43
Sewer	48,815.30	97,986.85	26,518.24		75,689.79	75,689.79
Solid Waste	48,589.00	48,600.38			11.38	11.38
Golf Course	152,731.60	158,795.67			6,064.07	6,064.07
Total Business-Type Activities	351,435.00	423,697.28	52,299.39	0.00	124,561.67	124,561.67
Total Primary Government	\$ 748,455.38	\$ 488,177.84	\$ 140,769.85	(244,069.36)	124,561.67	(119,507.69)
General Revenues:						
Taxes:						
Property Taxes				239,522.24		239,522.24
Sales Taxes				136,851.59		136,851.59
State Shared Revenues				5,289.58		5,289.58
Unrestricted Investment Earnings				10,466.24	2,027.43	12,493.67
Miscellaneous Revenue				4,610.55		4,610.55
Transfers				2,016.76	(2,016.76)	0.00
Total General Revenues and Transfers				398,756.96	10.67	398,767.63
Change in Net Position				154,687.60	124,572.34	279,259.94
Net Position - Beginning				723,478.90	567,203.44	1,290,682.34
NET POSITION - ENDING				\$ 878,166.50	\$ 691,775.78	\$ 1,569,942.28

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF CASTLEWOOD
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For the Year Ended December 31, 2015

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		Total
				Governmental Activities	Business-Type Activities	
Primary Government:						
Governmental Activities:						
General Government	\$ 109,337.29	\$ 7,735.00	\$	\$ (101,602.29)	\$	\$ (101,602.29)
Public Safety	32,499.96	562.90		(31,937.06)		(31,937.06)
Public Works	676,729.48		286,858.40	(389,871.08)		(389,871.08)
Culture and Recreation	53,837.12	15,449.00	16,500.00	(21,888.12)		(21,888.12)
Conservation and Development	177,719.48	21,425.87		(156,293.61)		(156,293.61)
Liquor Operating Agreement		6,917.52		6,917.52		6,917.52
Total Governmental Activities	1,050,123.33	52,090.29	303,358.40	(694,674.64)	0.00	(694,674.64)
Business-Type Activities:						
Water	119,036.81	118,438.17			(598.64)	(598.64)
Sewer	83,026.43	98,875.95			15,849.52	15,849.52
Solid Waste	47,531.55	47,644.25			112.70	112.70
Golf Course	151,969.87	138,593.39			(13,376.48)	(13,376.48)
Total Business-Type Activities	401,564.66	403,551.76	0.00	0.00	1,987.10	1,987.10
Total Primary Government	\$ 1,451,687.99	\$ 455,642.05	\$ 303,358.40	(694,674.64)	1,987.10	(692,687.54)
General Revenues:						
Taxes:						
Property Taxes				239,380.83		239,380.83
Sales Taxes				133,124.41		133,124.41
State Shared Revenues				5,088.45		5,088.45
Unrestricted Investment Earnings				10,269.85	1,588.12	11,857.97
Miscellaneous Revenue				6,433.69	5,597.34	12,031.03
Transfers				(8,426.00)	8,426.00	0.00
Total General Revenues and Transfers				385,871.23	15,611.46	401,482.69
Change in Net Position				(308,803.41)	17,598.56	(291,204.85)
Net Position - Beginning				1,032,282.31	549,604.88	1,581,887.19
NET POSITION - ENDING				\$ 723,478.90	\$ 567,203.44	\$ 1,290,682.34

The notes to the financial statements are an integral part of this statement.

**MUNICIPALITY OF CASTLEWOOD
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
December 31, 2016**

	<u>General Fund</u>	<u>First Cent Sales Tax Fund</u>	<u>Additional Sales Tax Fund</u>	<u>Total Governmental Funds</u>
ASSETS:				
Cash and Cash Equivalents	\$ 317,346.04	\$ 123,855.23	\$ 182,351.94	\$ 623,553.21
Investments	129,491.39	50,613.15	74,508.75	254,613.29
TOTAL ASSETS	<u><u>\$ 446,837.43</u></u>	<u><u>\$ 174,468.38</u></u>	<u><u>\$ 256,860.69</u></u>	<u><u>\$ 878,166.50</u></u>
FUND BALANCES: (See Note 1.k.)				
Committed	\$	\$ 174,468.38	\$ 256,860.69	\$ 431,329.07
Unassigned	446,837.43			446,837.43
TOTAL FUND BALANCES	<u><u>\$ 446,837.43</u></u>	<u><u>\$ 174,468.38</u></u>	<u><u>\$ 256,860.69</u></u>	<u><u>\$ 878,166.50</u></u>

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF CASTLEWOOD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2016

	<u>General Fund</u>	<u>First Cent Sales Tax Fund</u>	<u>Additional Sales Tax Fund</u>	<u>Total Governmental Funds</u>
Revenues:				
Taxes:				
General Property Taxes	\$ 239,086.46	\$	\$	\$ 239,086.46
General Sales and Use Taxes		68,425.76	68,425.83	136,851.59
Penalties and Interest on Delinquent Taxes	435.78			435.78
Licenses and Permits	2,760.00			2,760.00
Intergovernmental Revenue:				
Federal Grants	21,361.61			21,361.61
State Grants			20,914.36	20,914.36
State Shared Revenue:				
Bank Franchise Tax	1,199.00			1,199.00
Prorate License Fees	3,243.52			3,243.52
Liquor Tax Reversion (25%)	4,090.58			4,090.58
Motor Vehicle Licenses	17,586.65			17,586.65
Local Government Highway and Bridge Fund	22,293.18			22,293.18
County Shared Revenue:				
County Road Tax (25%)	1,649.45			1,649.45
County Wheel Tax	256.69			256.69
Charges for Goods and Services:				
Culture and Recreation	10,660.26			10,660.26
Fines and Forfeits:				
Court Fines and Costs	221.00			221.00
Miscellaneous Revenue:				
Investment Earnings	1,302.25	8,414.68	749.31	10,466.24
Rentals	5,325.00			5,325.00
Liquor Operating Agreement Income	6,520.76			6,520.76

Other	8,775.55	30,993.54		39,769.09
Total Revenues	<u>346,767.74</u>	<u>107,833.98</u>	<u>90,089.50</u>	<u>544,691.22</u>
Expenditures:				
General Government:				
Legislative	66,757.35			66,757.35
Elections	136.11			136.11
Financial Administration	24,801.91	8,394.27	945.00	34,141.18
Public Safety:				
Police	37,700.04			37,700.04
Public Works:				
Highways and Streets	144,215.59		11,490.41	155,706.00
Culture and Recreation:				
Recreation	38,363.89			38,363.89
Libraries	8,515.81			8,515.81
Conservation and Development:				
Economic Development and Assistance (Industrial Development)		55,700.00		55,700.00
Total Expenditures	<u>320,490.70</u>	<u>64,094.27</u>	<u>12,435.41</u>	<u>397,020.38</u>
Excess of Revenues Over (Under) Expenditures	<u>26,277.04</u>	<u>43,739.71</u>	<u>77,654.09</u>	<u>147,670.84</u>
Other Financing Sources (Uses):				
Transfers In	3,275.07			3,275.07
Transfers Out		(509.00)	(749.31)	(1,258.31)
Sale of Municipal Property		5,000.00		5,000.00
Total Other Financing Sources (Uses)	<u>3,275.07</u>	<u>4,491.00</u>	<u>(749.31)</u>	<u>7,016.76</u>
Net Change in Fund Balance	29,552.11	48,230.71	76,904.78	154,687.60
Fund Balance - Beginning	<u>417,285.32</u>	<u>126,237.67</u>	<u>179,955.91</u>	<u>723,478.90</u>
FUND BALANCE - ENDING	<u>\$ 446,837.43</u>	<u>\$ 174,468.38</u>	<u>\$ 256,860.69</u>	<u>\$ 878,166.50</u>

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The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF CASTLEWOOD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2015

	<u>General Fund</u>	<u>First Cent Sales Tax Fund</u>	<u>Additional Sales Tax Fund</u>	<u>Total Governmental Funds</u>
Revenues:				
Taxes:				
General Property Taxes	\$ 238,675.45	\$	\$	\$ 238,675.45
General Sales and Use Taxes		66,562.15	66,562.26	133,124.41
Penalties and Interest on Delinquent Taxes	705.38			705.38
Licenses and Permits	3,400.00			3,400.00
Intergovernmental Revenue:				
State Grants			256,376.73	256,376.73
State Shared Revenue:				
Bank Franchise Tax	1,189.56			1,189.56
Prorate License Fees	1,444.32			1,444.32
Liquor Tax Reversion (25%)	3,898.89			3,898.89
Motor Vehicle Licenses	11,601.67			11,601.67
Local Government Highway and Bridge Fund	15,849.34			15,849.34
County Shared Revenue:				
County Road Tax (25%)	1,459.75			1,459.75
County Wheel Tax	126.59			126.59
Charges for Goods and Services:				
Culture and Recreation	15,449.00			15,449.00
Fines and Forfeits:				
Court Fines and Costs	562.90			562.90
Miscellaneous Revenue:				
Investment Earnings	1,159.35	8,610.56	499.94	10,269.85
Rentals	4,335.00			4,335.00
Contributions and Donations from Private Sources	16,500.00			16,500.00

Liquor Operating Agreement Income	6,917.52			6,917.52
Other	6,433.69	21,425.87		27,859.56
Total Revenues	<u>329,708.41</u>	<u>96,598.58</u>	<u>323,438.93</u>	<u>749,745.92</u>
Expenditures:				
General Government:				
Legislative	55,911.47			55,911.47
Financial Administration	24,059.27	3,436.55		27,495.82
Other	25,930.00			25,930.00
Public Safety:				
Police	32,499.96			32,499.96
Public Works:				
Highways and Streets	175,280.62	87,162.09	414,286.77	676,729.48
Culture and Recreation:				
Recreation	45,331.72			45,331.72
Libraries	8,505.40			8,505.40
Conservation and Development:				
Economic Development and Assistance (Industrial Development)		177,719.48		177,719.48
Total Expenditures	<u>367,518.44</u>	<u>268,318.12</u>	<u>414,286.77</u>	<u>1,050,123.33</u>
Excess of Revenues Over (Under) Expenditures	<u>(37,810.03)</u>	<u>(171,719.54)</u>	<u>(90,847.84)</u>	<u>(300,377.41)</u>
Other Financing Sources (Uses):				
Transfers In	2,424.43			2,424.43
Transfers Out	(10,000.00)	(350.49)	(499.94)	(10,850.43)
Total Other Financing Sources (Uses)	<u>(7,575.57)</u>	<u>(350.49)</u>	<u>(499.94)</u>	<u>(8,426.00)</u>
Net Change in Fund Balance	(45,385.60)	(172,070.03)	(91,347.78)	(308,803.41)
Fund Balance - Beginning	<u>462,670.92</u>	<u>298,307.70</u>	<u>271,303.69</u>	<u>1,032,282.31</u>
FUND BALANCE - ENDING	<u>\$ 417,285.32</u>	<u>\$ 126,237.67</u>	<u>\$ 179,955.91</u>	<u>\$ 723,478.90</u>

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF CASTLEWOOD
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
DECEMBER 31, 2016

	Enterprise Funds				Totals
	Water Fund	Sewer Fund	Solid Waste Fund	Golf Course Fund	
ASSETS:					
Current Assets:					
Cash and Cash Equivalents	\$ 298,056.76	\$ 187,274.21	\$ 60.38	\$ 5,843.46	\$ 491,234.81
Investments	121,890.31	76,465.92		2,184.74	200,540.97
TOTAL ASSETS	\$ 419,947.07	\$ 263,740.13	\$ 60.38	\$ 8,028.20	\$ 691,775.78
NET POSITION:					
Restricted For:					
Revenue Bond Debt Service	\$ 14,844.00	\$ 25,963.96	\$ 60.38	\$ 8,028.20	\$ 40,807.96
Unrestricted	405,103.07	237,776.17			650,967.82
TOTAL NET POSITION	\$ 419,947.07	\$ 263,740.13	\$ 60.38	\$ 8,028.20	\$ 691,775.78

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF CASTLEWOOD
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
For the Year Ended December 31, 2016

	Enterprise Funds				Totals
	Water Fund	Sewer Fund	Solid Waste Fund	Golf Course Fund	
Operating Revenues:					
Charges for Goods and Services	\$ 118,277.74	\$ 97,986.85	\$ 48,554.24	\$ 153,418.86	\$ 418,237.69
Miscellaneous	36.64		39.48	5,217.06	5,293.18
Total Operating Revenues	<u>118,314.38</u>	<u>97,986.85</u>	<u>48,593.72</u>	<u>158,635.92</u>	<u>423,530.87</u>
Operating Expenses:					
Personal Services	37,768.26	9,680.10		71,119.05	118,567.41
Other Current Expense	15,323.32	13,171.24	48,589.00	58,538.72	135,622.28
Materials				23,073.83	23,073.83
Capital Assets	33,363.52				33,363.52
Total Operating Expenses	<u>86,455.10</u>	<u>22,851.34</u>	<u>48,589.00</u>	<u>152,731.60</u>	<u>310,627.04</u>
Operating Income (Loss)	<u>31,859.28</u>	<u>75,135.51</u>	<u>4.72</u>	<u>5,904.32</u>	<u>112,903.83</u>
Nonoperating Revenues (Expenses):					
Operating Grants	25,781.15	26,518.24			52,299.39
Investment Earnings	1,231.14	774.32		21.97	2,027.43
Debt Service (Principal)	(4,297.37)	(19,315.74)			(23,613.11)
Interest Expense	(10,546.63)	(6,648.22)			(17,194.85)
Other			6.66	159.75	166.41
Total Nonoperating Revenues (Expenses)	<u>12,168.29</u>	<u>1,328.60</u>	<u>6.66</u>	<u>181.72</u>	<u>13,685.27</u>
Income (Loss) Before Transfers	44,027.57	76,464.11	11.38	6,086.04	126,589.10
Transfers Out	<u>(1,225.81)</u>	<u>(768.98)</u>		<u>(21.97)</u>	<u>(2,016.76)</u>
Change in Net Position	42,801.76	75,695.13	11.38	6,064.07	124,572.34
Net Position - Beginning	<u>377,145.31</u>	<u>188,045.00</u>	<u>49.00</u>	<u>1,964.13</u>	<u>567,203.44</u>
NET POSITION - ENDING	<u>\$ 419,947.07</u>	<u>\$ 263,740.13</u>	<u>\$ 60.38</u>	<u>\$ 8,028.20</u>	<u>\$ 691,775.78</u>

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF CASTLEWOOD
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
For the Year Ended December 31, 2015

	Enterprise Funds				Totals
	Water Fund	Sewer Fund	Solid Waste Fund	Golf Course Fund	
Operating Revenues:					
Charges for Goods and Services	\$ 118,438.17	\$ 98,875.95	\$ 47,620.52	\$ 138,593.39	\$ 403,528.03
Miscellaneous	214.42		42.31	5,340.61	5,597.34
Total Operating Revenues	<u>118,652.59</u>	<u>98,875.95</u>	<u>47,662.83</u>	<u>143,934.00</u>	<u>409,125.37</u>
Operating Expenses:					
Personal Services	40,299.45	9,353.58		67,653.42	117,306.45
Other Current Expense	28,858.36	12,708.89	47,531.55	63,011.27	152,110.07
Materials				20,948.15	20,948.15
Capital Assets	35,000.00	35,000.00			70,000.00
Total Operating Expenses	<u>104,157.81</u>	<u>57,062.47</u>	<u>47,531.55</u>	<u>151,612.84</u>	<u>360,364.67</u>
Operating Income (Loss)	<u>14,494.78</u>	<u>41,813.48</u>	<u>131.28</u>	<u>(7,678.84)</u>	<u>48,760.70</u>
Nonoperating Revenues (Expenses):					
Investment Earnings	1,054.60	529.22		4.30	1,588.12
Debt Service (Principal)	(4,098.41)	(18,672.61)			(22,771.02)
Interest Expense	(10,745.59)	(7,291.35)			(18,036.94)
Other	(35.00)		23.73	(357.03)	(368.30)
Total Nonoperating Revenues (Expenses)	<u>(13,824.40)</u>	<u>(25,434.74)</u>	<u>23.73</u>	<u>(352.73)</u>	<u>(39,588.14)</u>
Income (Loss) Before Transfers	670.38	16,378.74	155.01	(8,031.57)	9,172.56
Transfers In				10,000.00	10,000.00
Transfers Out	(1,047.54)	(522.16)		(4.30)	(1,574.00)
Change in Net Position	(377.16)	15,856.58	155.01	1,964.13	17,598.56
Net Position - Beginning	377,522.47	172,188.42	(106.01)	0.00	549,604.88
NET POSITION - ENDING	<u>\$ 377,145.31</u>	<u>\$ 188,045.00</u>	<u>\$ 49.00</u>	<u>\$ 1,964.13</u>	<u>\$ 567,203.44</u>

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF CASTLEWOOD
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.c., these financial statements are presented on a modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements.

a. Financial Reporting Entity:

The reporting entity of the Municipality of Castlewood (Municipality), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

b. Basis of Presentation:

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Municipality and for each function of the Municipality's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Municipality or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or

3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the Municipality financial reporting entity are described below:

Governmental Funds:

General Fund – The General Fund is the general operating fund of the Municipality. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always considered to be a major fund.

Special Revenue Funds – Special revenue funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

First Cent Sales Tax Fund – to account for the collection of 1% sales tax revenue committed by local ordinance to be used for economic development, including the placement of revolving loans to local businesses for expansion and businesses willing to locate in the Municipality of Castlewood. This is a major fund.

Additional Sales Tax Fund – to account for an additional 1% sales tax revenue committed by local ordinance to be used for capital improvement, land acquisition, the funding of public ambulances and medical emergency response vehicles, public hospitals or on-profit hospitals with fifty (50) or fewer licensed beds, the transfer to the special 911 fund authorized by SDCL 34-45-12, the purchasing of firefighting vehicles and equipment, debt retirement, and minor or major rehabilitation or reconstruction of streets as defined in the June, 1994, South Dakota Department of Transportation Pavement Condition Survey Guide for City Streets. These expenditures may be financed through a sale-lease back agreement. This is a major fund.

Proprietary Funds:

Enterprise Funds – Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met. Governments should apply each of these criteria in the context of the activity's principal revenue sources.

- a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity.)
- b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
- c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Water Fund – financed primarily by user charges this fund accounts for the construction and operation of the municipal waterworks system and related facilities. (SDCL 9-47-1) This is a major fund.

Sewer Fund – financed primarily by user charges this fund accounts for the construction and operation of the municipal sanitary sewer system and related facilities. (SDCL 9-48-2) This is a major fund.

Solid Waste Fund – financed primarily by user charges this fund accounts for the collection and disposal of solid waste. (SDCL 9-32-11 and 34A-6) This is a major fund in 2016 and the Municipality elected to report as a major fund in 2015.

Golf Course Fund – financed primarily by user charges this fund accounts for the operation and maintenance of the municipal golf course. This is a major fund.

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe “how” transactions are recorded within the various financial statements. Basis of accounting refers to “when” revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

The Municipality’s basis of accounting is the modified cash basis, which is a basis of accounting other than USGAAP. Under USGAAP, transactions are recorded in the accounts when revenues are earned and liabilities are incurred. Under the modified cash basis, transactions are recorded when cash is received or disbursed.

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied within the limitations of the modified cash basis of accounting as defined below.

Fund Financial Statements:

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used, applied within the limitations of the modified cash basis of accounting.

Basis of Accounting:

In the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental and business-type activities are presented using a modified cash basis of accounting.

The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions. Under the modified cash basis of accounting, the statement of financial position reports only cash and cash equivalents (those investments with terms to maturity of 90 days (three months) or less at the date of acquisition). Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent that cash has been received or disbursed. The acceptable modification to the cash basis of accounting implemented by the Municipality in these financial statements is:

Recording long-term investments in marketable securities (those with maturities more than 90-days (three months) from the date of acquisition) acquired with cash assets at cost.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the Municipality applied USGAAP, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types and fiduciary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

d. Deposits and Investments:

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less. Investments in open-end mutual fund shares, or similar investments in external investment pools, are also considered to be cash equivalents.

Investments classified in the financial statements consist entirely of certificates of deposit whose term to maturity at date of acquisition exceeds three months, and/or those types of investment authorized by South Dakota Codified Law (SDCL) 4-5-6. Under the modified cash basis of accounting, investments are carried at cost.

e. Capital Assets:

Under the modified cash basis of accounting, capital assets are recorded when they result from cash transactions, and are depreciated, where appropriate. The accounting treatment for property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Financial Statements:

Under the modified cash basis of accounting, capital assets are considered a cost of the program for which they were acquired, for the amount paid in cash. Under the modified cash basis of accounting, capital assets arising from cash transactions reported in the government-wide financial statements are accounted for as assets in the Statement of Net Position. In the Statement of Activities, cash payments for capital assets are recorded in the program category for which they were acquired. Allocations between programs are made, where necessary to match the cost with the program that benefits from the use of the capital assets.

As discussed in Note 1.c. above, the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental and business-type activities are presented using a modified cash basis of accounting. The Municipality has not elected to modify their cash basis presentation by recording capital assets arising from cash transactions and depreciating those assets where appropriate so any capital assets owned by the Municipality and the related depreciation are not reported on the financial statements of the Municipality.

f. Long-Term Liabilities:

Long-term liabilities include, but are not limited to, General Obligation Bonds, Revenue Bonds, Certificates of Participation, Financing (Capital Acquisition) Leases, and Compensated Absences.

As discussed in Note 1.c., above the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental and business-type activities are presented using a modified cash basis of accounting. The Municipality has not elected to modify their cash basis presentation by recording long-term debt arising from cash transactions so any outstanding indebtedness is not reported on the financial statements of the Municipality. The Municipality does report the principal and interest payments on long-term debt as Debt Service expenditures on the Statement of Revenues, Expenditures and Changes in Fund Balances. On the Statement of Activities the principal portion of these Debt

Service payments are reported within the appropriate expense function while the interest portion is reported as Interest on Long-Term Debt.

The Municipality has presented as Supplementary Information a Schedule of Changes in Long-Term Debt along with related notes that include details of any outstanding Long-Term Debt.

g. Program Revenues:

Program revenues derive directly from the program itself or from parties other than the Municipality's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services – These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

h. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Revenues, Expenses and Changes in Net Position, revenues and expenses are classified as operating or nonoperating revenues and expenses. Operating revenues and expenses directly relate to the purpose of the fund.

i. Equity Classifications:

Government-wide Financial Statements:

Equity is classified as Net Position and is displayed in two components:

1. Restricted Net Position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
2. Unrestricted Net Position – All other net position that do not meet the definition of Restricted Net Position.

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between "Nonspendable", "Restricted", "Committed", "Assigned", and "Unassigned" components. Proprietary fund equity is classified the same as in the government-wide financial statements.

j. Application of Net Position:

It is the Municipality's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

k. Fund Balance Classification Policies and Procedures:

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Municipality classifies governmental fund balances as follows:

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Municipal Council.
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The Municipal Governing Board committed the following fund balance types by taking the following action:

<u>Fund Balance Type</u>	<u>Amount</u>	<u>Action</u>
First Cent Sales Tax	\$ 174,468.38	Ordinance
Additional Sales Tax	\$ 256,860.69	Ordinance

The Municipality uses *restricted/committed* amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Government would first use *committed, then assigned, and lastly unassigned amounts* of unrestricted fund balance when expenditures are made.

The Municipality *does not* have a formal minimum fund balance policy.

The purpose of each major special revenue fund and revenue source is listed below:

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
First Cent Sales Tax Fund	1% Sales Tax
Additional Sales Tax Fund	1% Sales Tax

A schedule of fund balances is provided as follows:

**MUNICIPALITY OF CASTLEWOOD
DISCLOSURE OF FUND BALANCES REPORTED ON BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2016**

	<u>General Fund</u>	<u>First Cent Sales Tax Fund</u>	<u>Additional Sales Tax Fund</u>	<u>Total Governmental Funds</u>
Fund Balances:				
Committed for:				
Economic Development Purposes	\$	\$ 174,468.38	\$	\$ 174,468.38
Capital Improvement Purposes			256,860.69	256,860.69
Unassigned	<u>446,837.43</u>			<u>446,837.43</u>
Total Fund Balances	<u>\$ 446,837.43</u>	<u>\$ 174,468.38</u>	<u>\$ 256,860.69</u>	<u>\$ 878,166.50</u>

2. DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

The Municipality follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits – The Municipality’s cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank’s public debt rating which may not be less than “AA” or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments – In general, SDCL 4-5-6 permits Municipality funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

As of December 31, 2016, the Municipality did not have any investments. The investments reported in the financial statements consist of only certificates of deposit.

Credit Risk – State law limits eligible investments for the Municipality, as discussed above. The Municipality’s investment policy does not further limit its investment choices.

Custodial Credit Risk – Deposits – The risk that, in the event of a depository failure, the Municipality’s deposits may not be returned to it. As of December 31, 2016 the Municipality’s deposits in financial institutions were not exposed to custodial credit risk.

Concentration of Credit Risk – The Municipality places no limit on the amount that may be invested in any one issuer.

Interest Rate Risk – The Municipality’s formal investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Assignment of Investment Income – State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The Municipality’s policy is to credit all income from deposits and investments to the General Fund, except for the investment income related to the revolving loans issued through the First Cent Sales Tax Fund for economic development and the interest income related to the savings account set up by the Municipality for the debt service requirements for the Water and Sewer Funds. USGAAP, on the other hand, requires income from deposits and investments to be reported in the fund whose assets generated that income except where legal or contractual requirements require investment income to be credited to a fund other than the one associated with the assets. Where the governing board has discretion to credit investment income to a fund other than the fund that provided the resources for investment, a transfer to the designated fund is reported. Accordingly, in the fund financial statements, interfund transfers of investment earnings are reported, while in the government-wide financial statements, they have been eliminated, except for the net amounts transferred between governmental activities and business-type activities.

Interfund transfers for the year ended December 31, 2015 were as follows:

<u>Transfers From:</u>	<u>Transfers To:</u>		<u>Total</u>
	<u>General Fund</u>	<u>Golf Course Fund</u>	
Major Funds:			
General Fund	\$	\$ 10,000.00	\$ 10,000.00
First Cent Sales Tax Fund	350.49		350.49
Additional Sales Tax Fund	499.94		499.94
Water Fund	1,047.54		1,047.54
Sewer Fund	522.16		522.16
Golf Course Fund	4.30		4.30
Total	<u>\$ 2,424.43</u>	<u>\$ 10,000.00</u>	<u>\$ 12,424.43</u>

The Municipality transferred from the General Fund to the Golf Course Fund to support the golf course operations of the Municipality. The Municipality typically performs allowable cash transfers relating to interest revenue generated by the above noted major funds to the General Fund.

6. PENSION PLAN

Plan Information:

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://sdrs.sd.gov/publications.aspx> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided:

SDRS has three different classes of employees, Class A, Class B public safety and Class B judicial. Class A retirement benefits are determined as 1.7 percent prior to 2008 and 1.55 percent thereafter of the employee's final 3-year average compensation times the employee's years of service. Employees with 3 years of service are eligible to retire at age 55. Class B public safety benefits are determined as 2.4 percent for service prior to 2008 and 2.0 percent thereafter of employee final average compensation. Class B judicial benefits are determined as 3.733 percent for service prior to 2008 and 3.333 percent thereafter of employee final average compensation. All Class B employees with 3 years of service are eligible to retire at age 45. Employees are eligible for service-related disability benefits regardless of length of service. Three years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are a percent of the employee's final average salary.

The annual increase in the amount of the SDRS benefits payable on each July 1st is indexed to the consumer price index (CPI) based on SDRS funded status:

- If the SDRS market value funded ratio is 100% or more – 3.1% COLA
- If the SDRS market value funded ratio is 80.0% to 99.9%, index with the CPI
 - 90.0% to 99.9% funded — 2.1% minimum and 2.8% maximum COLA
 - 80.0% to 90.0% funded — 2.1% minimum and 2.4% maximum COLA
- If the SDRS market value funded ratio is less than 80% -- 2.1% COLA

All benefits except those depending on the Member's Accumulated Contributions are annually increased by the Cost-of-Living Adjustment.

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The Municipality's share of contributions to the SDRS for the calendar years ended December 31, 2016, 2015, and 2014, equal to the required contributions each year, were as follows:

<u>Year</u>	<u>Amount</u>
2016	\$ 7,234.86
2015	\$ 6,918.95
2014	\$ 4,112.14

Pension Liabilities:

At June 30, 2016, SDRS is 96.89% funded and accordingly has a net pension liability. The proportionate share of the components of the net pension liability of South Dakota Retirement System, for the Municipality as of this measurement period ending June 30, 2016 are as follows:

Proportionate share of total pension liability	\$ 687,622.16
Less proportionate share of net position restricted for pension benefits	<u>666,217.07</u>
Proportionate share of net pension liability	<u>\$ 21,405.09</u>

The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was based on a projection of the Municipality's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2016, the Municipality's proportion was .0063368%, which is an increase of .0013506% from its proportion measured as of June 30, 2015.

Actuarial Assumptions:

The total pension liability (asset) in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Salary Increases	5.83 percent at entry to 3.87 percent after 30 years of service
Investment Rate of Return	7.25 percent through 2017 and 7.50 percent thereafter, net of pension plan investment expense

Mortality rates were based on the RP-2000 Employee Mortality Table for males and females, as appropriate.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2011. The mortality assumptions were revised based on an extension of the experience study including mortality experience through June 30, 2013.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real

estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	4.5%
Fixed Income	30.0%	1.8%
Real Estate	10.0%	4.6%
Cash	2.0%	0.7%
 Total	 <u>100%</u>	

Discount Rate:

The discount rate used to measure the total pension liability (asset) was 7.25 percent through 2017 and 7.50% thereafter. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

Sensitivity of liability (asset) to changes in the discount rate:

The following presents the Municipality's proportionate share of net pension liability (asset) calculated using the discount rate of 7.25 percent through 2017 and 7.50 percent thereafter, as well as what the Municipality's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.25/6.50%) or 1-percentage point higher (8.25/8.50%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Municipality's proportionate share of the net pension liability (asset)	\$ 119,782.59	\$ 21,405.09	\$ (58,832.33)

Pension Plan Fiduciary Net Position:

Detailed information about the plan's fiduciary net position is available in the separately issued SDRS financial report.

7. SIGNIFICANT CONTINGENCIES – LITIGATION

At December 31, 2016, the Municipality was not involved in any litigation.

8. RISK MANAGEMENT

The Municipality is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2016, the Municipality managed its risks as follows:

Employee Health Insurance:

The Municipality joined the South Dakota Municipal League Health Pool of South Dakota. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The Municipality pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage includes an unlimited lifetime maximum payment per person, with some service exceptions as per policy.

The Municipality does not carry additional health insurance coverage to pay claims in excess of this upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Liability Insurance:

The Municipality joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The Municipality's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the Municipality. The Municipality pays an annual premium, to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The Municipality pays an annual premium to the pool to provide coverage for:

General Liability,
Automobile Liability, and
Officials Liability

The agreement with the SDPAA provides that the above coverages will be provided to a \$1,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 for property coverage and \$500,000 for liability coverage to the upper limit. A portion of the member premiums are also allocated to a cumulative reserve fund. The Municipality would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve fund on the following basis:

End of Municipality's First Full Year	50%
End of Municipality's Second Full Year	60%
End of Municipality's Third Full Year	70%
End of Municipality's Fourth Full Year	80%
End of Municipality's Fifth Full Year	90%
End of Municipality's Sixth Full Year and Thereafter	100%

As of December 31, 2016, the Municipality has vested balance in the cumulative reserve fund of \$15,304.98.

The Municipality carries no deductible for the general liability coverage, except for \$5,000 deductible per occurrence for injunctive relief and employment related claims, no deductible for automobile liability coverage, and a \$500 deductible for the officials liability coverage.

The Municipality does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Worker's Compensation:

The Municipality joined the South Dakota Municipal League Worker's Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The Municipality's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The Municipality pays an annual premium, to provide worker's compensation coverage for its employees, under a self-funded program and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to statutory limits in addition to a separate combined employer liability limit of \$2,000,000 per incident.

The Municipality does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

Unemployment Benefits:

The Municipality has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

During the two years ended December 31, 2016, no claims for unemployment benefits were paid. At December 31, 2016, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

**SUPPLEMENTARY INFORMATION
MUNICIPALITY OF CASTLEWOOD
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
GENERAL FUND
For the Year Ended December 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
General Property Taxes	\$ 243,000.00	\$ 243,000.00	\$ 239,086.46	\$ (3,913.54)
Amusement Taxes	100.00	100.00	0.00	(100.00)
Penalties and Interest on Delinquent Taxes	1,000.00	1,000.00	435.78	(564.22)
Licenses and Permits	2,500.00	2,500.00	2,760.00	260.00
Intergovernmental Revenue:				
Federal Grants	0.00	0.00	21,361.61	21,361.61
State Shared Revenue:				
Bank Franchise Tax	1,500.00	1,500.00	1,199.00	(301.00)
Prorate License Fees	2,000.00	2,000.00	3,243.52	1,243.52
Liquor Tax Reversion (25%)	4,500.00	4,500.00	4,090.58	(409.42)
Motor Vehicle Licenses	13,000.00	13,000.00	17,586.65	4,586.65
Local Government Highway and Bridge Fund	22,000.00	22,000.00	22,293.18	293.18
County Shared Revenue:				
County Road Tax (25%)	1,500.00	1,500.00	1,649.45	149.45
County Wheel Tax	130.00	130.00	256.69	126.69
Charges for Goods and Services:				
Culture and Recreation	13,000.00	13,000.00	10,660.26	(2,339.74)
Fines and Forfeits:				
Court Fines and Costs	300.00	300.00	221.00	(79.00)
Miscellaneous Revenue:				
Investment Earnings	2,500.00	2,500.00	1,302.25	(1,197.75)
Rentals	3,000.00	3,000.00	5,325.00	2,325.00
Liquor Operating Agreement Income	7,000.00	7,000.00	6,520.76	(479.24)
Other	8,000.00	8,000.00	8,775.55	775.55
Total Revenues	<u>325,030.00</u>	<u>325,030.00</u>	<u>346,767.74</u>	<u>21,737.74</u>
Expenditures:				
General Government:				
Legislative	66,150.00	76,150.00	66,757.35	9,392.65
Contingency	9,245.00	9,245.00		
Amount Transferred		(5,300.00)		3,945.00
Elections	1,000.00	1,000.00	136.11	863.89
Financial Administration	26,000.00	26,000.00	24,801.91	1,198.09
Public Safety:				
Police	32,500.00	37,800.00	37,700.04	99.96
Public Works:				
Highways and Streets	157,745.00	157,745.00	144,215.59	13,529.41
Culture and Recreation:				
Recreation	23,390.00	41,390.00	38,363.89	3,026.11
Libraries	9,000.00	9,000.00	8,515.81	484.19
Total Expenditures	<u>325,030.00</u>	<u>353,030.00</u>	<u>320,490.70</u>	<u>32,539.30</u>
Excess of Revenues Over (Under) Expenditures	0.00	(28,000.00)	26,277.04	54,277.04
Other Financing Sources (Uses):				
Transfers In	0.00	0.00	3,275.07	3,275.07
Net Change in Fund Balance	0.00	(28,000.00)	29,552.11	57,552.11
Fund Balance - Beginning	417,285.32	417,285.32	417,285.32	0.00
FUND BALANCE - ENDING	<u>\$ 417,285.32</u>	<u>\$ 389,285.32</u>	<u>\$ 446,837.43</u>	<u>\$ 57,552.11</u>

**SUPPLEMENTARY INFORMATION
MUNICIPALITY OF CASTLEWOOD
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
FIRST CENT SALES TAX FUND
For the Year Ended December 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
General Sales and Use Taxes	\$ 55,000.00	\$ 55,000.00	\$ 68,425.76	\$ 13,425.76
Miscellaneous Revenue:				
Investment Earnings	8,000.00	8,000.00	8,414.68	414.68
Other	20,000.00	20,000.00	30,993.54	10,993.54
Total Revenues	<u>83,000.00</u>	<u>83,000.00</u>	<u>107,833.98</u>	<u>24,833.98</u>
Expenditures:				
General Government:				
Financial Administration	10,990.00	10,990.00	8,394.27	2,595.73
Conservation and Development:				
Economic Development and Assistance (Industrial Development)	222,010.00	222,010.00	55,700.00	166,310.00
Total Expenditures	<u>233,000.00</u>	<u>233,000.00</u>	<u>64,094.27</u>	<u>168,905.73</u>
Excess of Revenues Over (Under) Expenditures	<u>(150,000.00)</u>	<u>(150,000.00)</u>	<u>43,739.71</u>	<u>193,739.71</u>
Other Financing Sources (Uses):				
Transfers Out	0.00	0.00	(509.00)	(509.00)
Sale of Municipal Property	0.00	0.00	5,000.00	5,000.00
Total Other Financing Sources (Uses)	<u>0.00</u>	<u>0.00</u>	<u>4,491.00</u>	<u>4,491.00</u>
Net Change in Fund Balance	(150,000.00)	(150,000.00)	48,230.71	198,230.71
Fund Balance - Beginning	126,237.67	126,237.67	126,237.67	0.00
FUND BALANCE - ENDING	<u>\$ (23,762.33)</u>	<u>\$ (23,762.33)</u>	<u>\$ 174,468.38</u>	<u>\$ 198,230.71</u>

**SUPPLEMENTARY INFORMATION
MUNICIPALITY OF CASTLEWOOD
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
ADDITIONAL SALES TAX FUND
For the Year Ended December 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
General Sales and Use Taxes	\$ 55,000.00	\$ 55,000.00	\$ 68,425.83	\$ 13,425.83
Intergovernmental Revenue:				
State Grants	0.00	0.00	20,914.36	20,914.36
Miscellaneous Revenue:				
Investment Earnings	0.00	0.00	749.31	749.31
Total Revenues	<u>55,000.00</u>	<u>55,000.00</u>	<u>90,089.50</u>	<u>35,089.50</u>
Expenditures:				
General Government:				
Financial Administration	2,000.00	2,000.00	945.00	1,055.00
Public Works:				
Highways and Streets	133,000.00	133,000.00	11,490.41	121,509.59
Total Expenditures	<u>135,000.00</u>	<u>135,000.00</u>	<u>12,435.41</u>	<u>122,564.59</u>
Excess of Revenues Over (Under) Expenditures	(80,000.00)	(80,000.00)	77,654.09	157,654.09
Other Financing Sources (Uses):				
Transfers Out	0.00	0.00	(749.31)	(749.31)
Net Change in Fund Balance	(80,000.00)	(80,000.00)	76,904.78	156,904.78
Fund Balance - Beginning	179,955.91	179,955.91	179,955.91	0.00
FUND BALANCE - ENDING	<u>\$ 99,955.91</u>	<u>\$ 99,955.91</u>	<u>\$ 256,860.69</u>	<u>\$ 156,904.78</u>

**SUPPLEMENTARY INFORMATION
MUNICIPALITY OF CASTLEWOOD
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
GENERAL FUND
For the Year Ended December 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
General Property Taxes	\$ 237,000.00	\$ 237,000.00	\$ 238,675.45	\$ 1,675.45
Amusement Taxes	100.00	100.00	0.00	(100.00)
Penalties and Interest on Delinquent Taxes	1,000.00	1,000.00	705.38	(294.62)
Licenses and Permits	2,500.00	2,500.00	3,400.00	900.00
Intergovernmental Revenue:				
State Shared Revenue:				
Bank Franchise Tax	1,500.00	1,500.00	1,189.56	(310.44)
Prorate License Fees	2,000.00	2,000.00	1,444.32	(555.68)
Liquor Tax Reversion (25%)	4,200.00	4,200.00	3,898.89	(301.11)
Motor Vehicle Licenses	12,000.00	12,000.00	11,601.67	(398.33)
Local Government Highway and Bridge Fund	20,000.00	20,000.00	15,849.34	(4,150.66)
County Shared Revenue:				
County Road Tax (25%)	1,500.00	1,500.00	1,459.75	(40.25)
County Wheel Tax	175.00	175.00	126.59	(48.41)
Charges for Goods and Services:				
Culture and Recreation	5,500.00	5,500.00	15,449.00	9,949.00
Fines and Forfeits:				
Court Fines and Costs	100.00	100.00	562.90	462.90
Miscellaneous Revenue:				
Investment Earnings	2,700.00	2,700.00	1,159.35	(1,540.65)
Rentals	2,500.00	2,500.00	4,335.00	1,835.00
Contributions and Donations from Private Sources	0.00	0.00	16,500.00	16,500.00
Liquor Operating Agreement Income	6,400.00	6,400.00	6,917.52	517.52
Other	8,000.00	8,000.00	6,433.69	(1,566.31)
Total Revenues	<u>307,175.00</u>	<u>307,175.00</u>	<u>329,708.41</u>	<u>22,533.41</u>
Expenditures:				
General Government:				
Legislative	54,950.00	54,950.00	55,911.47	(961.47)
Contingency	9,245.00	9,245.00		
Amount Transferred		0.00		9,245.00
Elections	1,000.00	1,000.00	0.00	1,000.00
Financial Administration	25,600.00	25,600.00	24,059.27	1,540.73
Other	0.00	25,000.00	25,930.00	(930.00)
Public Safety:				
Police	32,500.00	32,500.00	32,499.96	0.04
Public Works:				
Highways and Streets	151,100.00	201,100.00	175,280.62	25,819.38
Culture and Recreation:				
Recreation	17,380.00	45,380.00	45,331.72	48.28
Libraries	9,000.00	9,000.00	8,505.40	494.60
Miscellaneous:				
Liquor Operating Agreements	6,400.00	6,400.00	0.00	6,400.00
Total Expenditures	<u>307,175.00</u>	<u>410,175.00</u>	<u>367,518.44</u>	<u>42,656.56</u>
Excess of Revenues Over (Under) Expenditures	<u>0.00</u>	<u>(103,000.00)</u>	<u>(37,810.03)</u>	<u>65,189.97</u>
Other Financing Sources (Uses):				
Transfers In	0.00	0.00	2,424.43	2,424.43
Transfers Out	0.00	0.00	(10,000.00)	(10,000.00)
Total Other Financing Sources (Uses)	<u>0.00</u>	<u>0.00</u>	<u>(7,575.57)</u>	<u>(7,575.57)</u>

SUPPLEMENTARY INFORMATION
MUNICIPALITY OF CASTLEWOOD
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
GENERAL FUND
For the Year Ended December 31, 2015
(Continued)

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Net Change in Fund Balance	0.00	(103,000.00)	(45,385.60)	57,614.40
Fund Balance - Beginning	462,670.92	462,670.92	462,670.92	0.00
FUND BALANCE - ENDING	<u>\$ 462,670.92</u>	<u>\$ 359,670.92</u>	<u>\$ 417,285.32</u>	<u>\$ 57,614.40</u>

SUPPLEMENTARY INFORMATION
MUNICIPALITY OF CASTLEWOOD
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
FIRST CENT SALES TAX FUND
For the Year Ended December 31, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
General Sales and Use Taxes	\$ 55,000.00	\$ 55,000.00	\$ 66,562.15	\$ 11,562.15
Intergovernmental Revenue:				
State Grants	300,000.00	300,000.00	0.00	(300,000.00)
Miscellaneous Revenue:				
Investment Earnings	9,500.00	9,500.00	8,610.56	(889.44)
Other	40,000.00	40,000.00	21,425.87	(18,574.13)
Total Revenues	<u>404,500.00</u>	<u>404,500.00</u>	<u>96,598.58</u>	<u>(307,901.42)</u>
Expenditures:				
General Government:				
Financial Administration	8,780.00	8,780.00	3,436.55	5,343.45
Public Works:				
Highways and Streets	102,000.00	102,000.00	87,162.09	14,837.91
Conservation and Development:				
Economic Development and Assistance (Industrial Development)	493,720.00	493,720.00	177,719.48	316,000.52
Total Expenditures	<u>604,500.00</u>	<u>604,500.00</u>	<u>268,318.12</u>	<u>336,181.88</u>
Excess of Revenues Over (Under) Expenditures	(200,000.00)	(200,000.00)	(171,719.54)	28,280.46
Other Financing Sources (Uses):				
Transfers Out	0.00	0.00	(350.49)	(350.49)
Net Change in Fund Balance	(200,000.00)	(200,000.00)	(172,070.03)	27,929.97
Fund Balance - Beginning	298,307.70	298,307.70	298,307.70	0.00
FUND BALANCE - ENDING	<u>\$ 98,307.70</u>	<u>\$ 98,307.70</u>	<u>\$ 126,237.67</u>	<u>\$ 27,929.97</u>

**SUPPLEMENTARY INFORMATION
MUNICIPALITY OF CASTLEWOOD
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
ADDITIONAL SALES TAX FUND
For the Year Ended December 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
General Sales and Use Taxes	\$ 50,000.00	\$ 50,000.00	\$ 66,562.26	\$ 16,562.26
Intergovernmental Revenue:				
State Grants	0.00	0.00	256,376.73	256,376.73
Miscellaneous Revenue:				
Investment Earnings	0.00	0.00	499.94	499.94
Total Revenues	<u>50,000.00</u>	<u>50,000.00</u>	<u>323,438.93</u>	<u>273,438.93</u>
Expenditures:				
Public Works:				
Highways and Streets	<u>200,000.00</u>	<u>420,000.00</u>	<u>414,286.77</u>	<u>5,713.23</u>
Excess of Revenues Over (Under) Expenditures	(150,000.00)	(370,000.00)	(90,847.84)	279,152.16
Other Financing Sources (Uses):				
Transfers Out	<u>0.00</u>	<u>0.00</u>	<u>(499.94)</u>	<u>(499.94)</u>
Net Change in Fund Balance	(150,000.00)	(370,000.00)	(91,347.78)	278,652.22
Fund Balance - Beginning	<u>271,303.69</u>	<u>271,303.69</u>	<u>271,303.69</u>	<u>0.00</u>
FUND BALANCE - ENDING	<u>\$ 121,303.69</u>	<u>\$ (98,696.31)</u>	<u>\$ 179,955.91</u>	<u>\$ 278,652.22</u>

MUNICIPALITY OF CASTLEWOOD
NOTES TO THE SUPPLEMENTARY INFORMATION
Schedules of Budgetary Comparisons for the General Fund
and for each major Special Revenue Fund with a legally required budget.

Note 1. Budgets and Budgetary Accounting:

The Municipality follows these procedures in establishing the budgetary data reflected in the schedules:

1. At the first regular board meeting in September of each year or within ten days thereafter, the Governing Board/Municipality Commission introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the Governing Board/Municipality Commission, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the Governing Board/Municipality Commission to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year end unless encumbered by resolution of the Governing Board/Municipality Commission.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund and special revenue funds.

6. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds.

**SUPPLEMENTARY INFORMATION
MUNICIPALITY OF CASTLEWOOD
SCHEDULE OF THE MUNICIPALITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
(ASSET)**

South Dakota Retirement System

*Last 10 Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Municipality's proportion of the net pension liability (asset)	0.0063368%	0.0049862%	0.0038643%
Municipality's proportionate share of net pension liability (asset)	\$ 21,405.09	\$ (21,147.90)	\$ (27,840.70)
Municipality's covered-employee payroll	\$ 120,496.18	\$ 91,035.66	\$ 67,576.68
Municipality's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	17.76%	-23.23%	-41.20%
Plan fiduciary net position as a percentage of the total pension liability (asset)	96.89%	104.10%	107.30%

* The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability (asset) which is 6/30. Until a full 10-year trend is compiled, the Municipality will present information for those years for which information is available.

MUNICIPALITY OF CASTLEWOOD
NOTES TO THE SUPPLEMENTARY INFORMATION
Schedule of the Proportionate Share of the Net Pension Liability (Asset)

Changes of benefit terms:

No significant changes.

Changes of assumptions:

No significant changes.

**SUPPLEMENTARY INFORMATION
MUNICIPALITY OF CASTLEWOOD
SCHEDULE OF CHANGES IN LONG-TERM DEBT
For the Two Years Ended December 31, 2016**

<u>Indebtedness</u>	<u>Long-Term Debt January 1, 2015</u>	<u>Add New Debt</u>	<u>Less Debt Retired</u>	<u>Long-Term Debt December 31, 2016</u>
Enterprise Long-Term Debt:				
Revenue Bonds	\$ 451,023.50	\$	\$ 46,384.13	\$ 404,639.37

Note 1 - Long-Term Debt:

Debt payable at December 31, 2016 is comprised of the following:

Revenue Bonds:

Water Utility Improvement Revenue Bonds; Issued 09/19/2002; Final Maturity 02/19/2042; Interest Rate 4.75%; Paid from the Water Fund	\$ 219,698.63
Wastewater Treatment Improvement Revenue Bonds; Issued 02/20/2002; Final Maturity 07/15/2023; Interest Rate 3.50%; Paid from the Sewer Fund	\$ 90,147.53
Wastewater Treatment Improvement Revenue Bonds; Issued 08/15/2006; Final Maturity 01/15/2027; Interest Rate 3.25%; Paid from the Sewer Fund	\$ 94,793.21